

Message Text

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15

ACTION EB-07

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SS-15 STR-04 CEA-01 L-02 H-02 DODE-00 PA-02 USIA-15

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FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 2137

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

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E.O. 11652: N/A

TAGS: ECON, EFIN, SN

SUBJ: SINGAPORE--SURPRISING ECONOMIC SUCCESS IN 1974; ANTI-RE-
CESSIONARY BUDGET FOR FY-75

SUMMARY: GOS PRELIMINARY STATISTICS FOR 1974 SHOW THAT SINGAPORE'S
ECONOMY (GROSS DOMESTIC PRODUCT) GREW BY HEALTHY 6.8 PERCENT
IN REAL TERMS. WHOLESALE AND RETAIL TRADE ACCOUNTED FOR ALMOST
HALF OF GROWTH. POPULATION GROWTH DROPPED TO 1.5 PERCENT AND PER-
CAPITA GDP EQUALED US\$2376 (ALL VALUES IN US DOLLARS AND CONVERSIONS
MADE AT S\$2.4 TO US\$1). EMPLOYMENT INCREASED BY 22,000 AND UNEM-
PLOYMENT WAS FOUR PERCENT. INFLATION RATE DROPPED; CONSUMER PRICE
INDEX SHOWED ONLY 13-PERCENT INCREASE OVER THE YEAR. REAL VALUE
OF EXTERNAL TRADE INCREASED 12 PERCENT, ENTREPOT TRADE WENT UP 16
PERCENT. ECONOMIC POLICY AND GOS BUDGET FOR FY-75 ARE ANTI-RECESSIONA
RY.

DEVELOPMENT FUND WILL OPERATE AT A DEFICIT NOT EXPECTED TO BE

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COVERED BY SLIGHT TAX INCREASES ANNOUNCED THUS FAR.

END SUMMARY.

1. FOLLOWING INDICATORS RELEASED IN ECONOMIC SURVEY GIVEN TO PARLIAMENT WITH FINANCE MINISTER'S BUDGET SPEECH MARCH 3: AT CURRENT PRICES SINGAPORE'S GDP INCREASED 26.2 PERCENT IN 1974. LEADING SECTOR WAS RETAIL AND WHOLESALE TRADE, WHICH GREW 32.5 PERCENT. CONSTRUCTION ALSO DID WELL, UP NEARLY 36 PERCENT; PUBLIC CONSTRUCTION WAS UP BUT PRIVATE SECTOR DECLINED AS FEWER PRIVATE DWELLINGS, OFFICES AND COMMERCIAL BUILDINGS WERE BUILT.

2. REAL GROWTH IN MANUFACTURING SLIPPED TO TWO PERCENT (FROM 16 PERCENT IN 1973) BUT GROWTH AT CURRENT FACTOR COSTS WAS 28 PERCENT. MANUFACTURING ACCOUNTED FOR OVER 28 PERCENT OF EMPLOYMENT AND NEARLY 25 PERCENT OF GDP AT CURRENT PRICES. ALTHOUGH SHIPBUILDING, SHIP REPAIR, OIL EQUIPMENT RECONSTRUCTION AND REPAIR, IRON AND STEEL, AND PETROLEUM REFINING WERE GROWTH INDUSTRIES, THE SLUMPING ELECTRONICS, TEXTILES AND WOODWORKING INDUSTRIES OFFSET MUCH OF THE GAIN. FIFTY-FOUR PERCENT OF MANUFACTURING OUTPUT WAS EXPORTED, UP FROM 45 PERCENT IN 1973. MANUFACTURING INDUSTRIES CONTINUED TO DIVERSIFY, PROMPTED BY ACTIVE GOS ENCOURAGEMENT TO DO SO.

3. EMPLOYMENT ROSE BY 22,000 IN 1974. ALTHOUGH 16,900 RETRENCHMENTS OCCURRED, PRIMARILY IN ELECTRONICS, TEXTILES AND WOODWORKING INDUSTRIES, UNEMPLOYMENT SURPRISINGLY DIPPED TO FOUR PERCENT (VS. 4.5 PERCENT IN 1973). MANUFACTURING EMPLOYMENT CONTINUED TO SHIFT TO HIGHER VALUE-ADDED INDUSTRIES, IN LINE WITH GOS DESIRES TO UPGRADE TECHNOLOGY LEVEL OF ITS INDUSTRY.

4. SINGAPORE CONTINUED TO HAVE A TRADE DEFICIT; HOWEVER, ITS BALANCE OF PAYMENTS WAS, AS USUAL, IN SURPLUS. EXTERNAL RESERVES REACHED \$2.7 BILLION AT THE END OF 1974. BOTH IMPORTS AND EXPORTS GREW, BY 63.1 PERCENT AND 58.9 PERCENT RESPECTIVELY. ENTREPOT TRADE INCREASED 26.7 PERCENT AT CURRENT PRICES. MAJOR TRADING PARTNERS WERE (1) JAPAN, (2) MALAYSIA, (3) U.S. AND (4) EEC. FOREIGN TRADE TOTALLED US\$14.4 BILLION; EXPORTS WERE \$5.9 BILLION AND IMPORTS \$8.5 BILLION. U.S. SHARE OF IMPORTS WAS 14 PERCENT.

5. GOS ECONOMIC AND FINANCIAL POLICY. IN HIS BUDGET SPEECH, FINANCE MINISTER HON SUI SEN SAID SINGAPORE WOULD STICK TO ITS "...LONG-TERM OBJECTIVE OF MAINTAINING A RELATIVELY HIGH RATE OF

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GROWTH." HE DID NOT GIVE A TARGET FIGURE FOR 1975. HE SAID THAT GROWTH SHOULD BE SPEARHEADED BY INDUSTRIALIZATION AND THAT SINGAPORE SHOULD BECOME A SERVICES CENTER "FOR TECHNICAL KNOW-HOW, TOURISM AND FINANCE".

GOS WANTS ITS RECESSION COUNTERMEASURES TO BE CONSISTENT WITH LONG-TERM DEVELOPMENT STRATEGY. INDUSTRIAL DEVELOPMENT POLICY WILL BE TO INCREASE LOCAL MANUFACTURING AND DIVERSIFY INTO LINES OF PRODUCTION

REQUIRING MORE SKILLED JOBS. THE GOS WILL FURTHER INTENSIFY ITS PROGRAM TO ATTRACT FOREIGN INVESTMENT, ASSIST WITH FINANCING, TRAINING PROGRAMS, AND LONGER TAX HOLIDAYS. GOS INTENDS TO STEP UP PUBLIC CONSTRUCTION AND GIVE MORE EMPHASIS TO INDUSTRIAL INFRA-STRUCTURE, UTILITIES, TRANSPORT, COMMUNICATIONS AND HOUSING PROJECTS. MONETARY POLICY WILL BE DIRECTED AT MAINTAINING MONETARY STABILITY AND PROMOTING ECONOMIC GROWTH. SPECIAL ATTENTION WILL BE GIVEN TO DEVELOPMENT AS A FINANCIAL CENTER. MANPOWER DEVELOPMENT POLICY WILL EMPHASIZE TRAINING AND UPGRADING OF SKILLS AND PRODUCTIVITY.

6. FY-75 GOS BUDGET IS EXPANSIONARY. ALTHOUGH TAX REVENUE AND RECURRENT EXPENDITURES FOR APR 1 '75 TO MAR 31 '76 ARE IN BALANCE AT \$1.1 BILLION EACH, TOTAL GOS EXPENDITURE, WHICH INCLUDES THOSE FROM THE DEVELOPMENT FUND (DF), IS EXPECTED TO EXCEED INCOME. THE DF WILL BE AUGMENTED BY A TRANSFER OF \$208 MILLION SHOWN IN RECURRENT EXPENDITURES, PLUS PROCEEDS OF NEW LOANS, BOTH DOMESTIC AND FOREIGN, WHICH GOS WILL PROPOSE LATER. DF EXPENDITURES WILL REACH \$900 MILLION (UP 60 PERCENT FROM 1973) AND WILL EXCEED FUNDS FROM THE ABOVE SOURCES BY \$102 MILLION; THIS "GAP WILL BE BRIDGED" BY NEW TAXATION AND A DRAWDOWN OF THE DF. NO NEW TAXES ANNOUNCED BUT INCREASES OF EXISTING TAXES ON TOBACCO, LIQUOR AND CARS EXPECTED TO YIELD \$17.3 MILLION. TAX RELIEFS FOR OLDER CITIZENS WERE ANNOUNCED AND EXPECTED TO COST \$1.6 MILLION. DF DRAWDOWN IS EXPECTED TO BE OVER \$86 MILLION.

7. COMMENT: 1974 TURNED OUT TO BE A BETTER YEAR FOR THE SINGAPORE ECONOMY THAN MOST OBSERVERS HAD EXPECTED, INCLUDING THIS EMBASSY. THE GDP GROWTH RATE OF 6.8 PERCENT IS TWO TO THREE PERCENTAGE POINTS HIGHER THAN WAS GENERALLY FORECAST SIX MONTHS AGO. GOS ECONOMISTS ADMIT THAT THEIR ROUGH GDP ESTIMATES FOR THE FIRST SIX MONTHS RELEASED AT TIME OF PRIME MINISTER'S NATIONAL DAY ADDRESS IN AUGUST SOMEWHAT UNDERSTATED ACTUAL GROWTH RATE, AND WHILE THE RATE DECLINED AS PREDICTED DURING SECOND HALF, THE OVERALL ANNUAL FIGURE UNCLASSIFIED

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WAS SOMEWHAT BETTER THAN EXPECTED. ANNUAL TRADE FIGURES ALSO SHOWED A HEALTHY IMPROVEMENT, ALTHOUGH THERE HAS BEEN A MODERATE DECLINE SINCE MID-YEAR. IN A COMMENT TO THE AMBASSADOR RECENTLY, DEFENSE MINISTER GOH SAID THAT MOST ECONOMISTS (APPARENTLY INCLUDING HIMSELF) HAD BEEN OVERLY PESSIMISTIC ABOUT THE FATE OF THE SINGAPORE ECONOMY, THAT THE DECLINE WAS NOT SO SHARP AS ANTICIPATED, AND THAT HE THOUGHT AN UPTURN WOULD OCCUR LATER THIS YEAR. CRONK

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